

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

-----141641Z 073102 /46

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 0948

S E C R E T LISBON 2966

EXDIS

DEPT. PASS TREASURY FOR SYVRUD

E.O. 11652: GDS

TAGS: EFIN, ECON, PO

SUBJ: MEDIUM TERM CREDIT FOR PORTUGAL

REF: LISBON 2495

1. BANK OF PORTUGAL LIQUID RESERVE HOLDINGS ON APRIL 11 WERE \$114 MILLION. THIS LEVEL REPRESENTS A DECLINE OF \$48.1 MILLION SINCE DECEMBER 31, 1976. DURING THAT PERIOD, HOWEVER, BANK OF PORTUGAL OBTAINED \$230 MILLION IN 6-MONTH EXTERNAL FINANCING. COMMERCIAL BANKS, THROUGH THE END OF MARCH, INCREASED THEIR SHORT-TERM EXTERNAL INDEBTEDNESS BY \$160 MILLION. PORTUGAL'S NET LOSS FOR THE PERIOD, THEREFORE, EXCEEDS \$438.1 MILLION.

2. IMF NEGOTIATIONS: BANK OF PORTUGAL HAS CONCLUDED ITS NEGOTIATIONS WITH IMF FOR FIRST CREDIT TRANCHE STANDBY. IMF EXPECTED TO GIVE ITS FINAL FORMAL APPROVAL ON APRIL 25. IN ADDITION, BASIC AGREEMENT HAS BEEN ACHIEVED ON COMPENSATORY FINANCING FACILITY CREDIT. BANK OF PORTUGAL WILL TRANSMIT REQUESTED DATA TO IMF ON APRIL 15. IT ANTICIPATES NO PROBLEM IN OBTAINING LETTER FROM IMF INDICATING PORTUGAL'S ELIGIBILITY TO DRAW AGAINST CFF. ONCE LETTER IS OBTAINED, BANK OF PORTUGAL WILL REQUEST \$35 MILLION DRAWING FROM

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U.S. ESF \$300 MILLION LOAN.

3. GOLD OPERATIONS: BANK OF PORTUGAL ANTICIPATES IT WILL DRAW ADDITIONAL \$25 MILLION IN GOLD UNDER U.S. ESF AGREEMENT BY JULY, THEREBY RAISING TOTAL GOLD DRAWINGS TO \$100 MILLION. THUS FAR BANK OF PORTUGAL HAS SOLD EQUIVALENT OF \$25 MILLION. IT EXPECTS TO RAISE THIS TOTAL TO

\$100 MILLION BY JULY AND THEREAFTER TO SELL APPROXIMATELY \$30 MILLION PER MONTH UNTIL THE END OF THE YEAR. FROM THESE PROCEEDS, BANK OF PORTUGAL WILL HAVE TO REPAY \$175 MILLION TO BIS IN REPAYMENT OF TWO SHORT TERM LOANS (ONE FOR \$100 MILLION AND ANOTHER FOR \$75 MILLION) ARRANGED AND DRAWN DOWN EARLIER THIS YEAR. BANK OF PORTUGAL WOULD LIKE TO ACCELERATE GOLD SALES, BUT BIS HAS BEEN FIRMLY RESISTING SUCH AN ACCELERATION. BANK OF PORTUGAL BELIEVES EUROPEAN CENTRAL BANKS ARE EXTREMELY RELUCTANT TO SEE BIS, WHICH IS ACTING AS AGENT, INCREASE SUBSTANTIALLY PORTUGUESE GOLD OFFERINGS TO THE MARKET.

4. CONSORTIUM LOAN: GOVERNOR SILVA LOPES OF BANK OF PORTUGAL IS CONCERNED THAT FUNDS MAY NOT BE AVAILABLE FROM IMF IN TIME OR IN SUFFICIENT QUANTITIES TO FULFILL PORTUGAL'S NEEDS DURING 1978 AND 1979. IF EXTENDED FINANCING FACILITY IS ESTABLISHED, WHICH HE CONCEDES IS QUITE FEASIBLE, IT WOULD PRESUMABLY HAVE TO OPERATE ON A NONDISCRIMINATORY BASIS. IN SUCH CASE, PORTUGAL WOULD HAVE TO COMPETE WITH A NUMBER OF OTHER COUNTRIES, SUCH AS ITALY, BRAZIL, THE PHILIPPINES, FOR THESE FUNDS. HE FEARS THAT ANY AMOUNT GIVE PORTUGAL, IN THOSE CONDITIONS, WOULD BE INSUFFICIENT FOR THE NATION'S NEEDS. IN ADDITION, HE FEELS THAT ANY CREDIT FROM AN EXTENDED FACILITY MUST ULTIMATELY BE BASED ON QUOTA STRUCTURE, AS HAS BEEN THE CASE IN THE PAST. IF THIS ASSUMPTION HOLDS TRUE, HE DOUBTS THAT THE EXTENDED FACILITY CREDIT WOULD BE LARGE ENOUGH.

5. FOR SYVRUD: SILVA LOPES WOULD VERY MUCH LIKE TO MEET  
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WITH SYVRUD PRIOR TO PORTUGUESE DELEGATION'S FORMAL MEETINGS IN WASHINGTON NEXT WEEK. PORTUGUESE EMBASSY IN WASHINGTON WILL PROBABLY CONTACT SYVRUD DURING NEXT FEW DAYS TO SEE IF SUCH A MEETING CAN BE ARRANGED.

6. COMMENT: BANK OF PORTUGAL IS CONVINCED IT WILL FACE SERIOUS LIQUIDITY SQUEEZE BY JULY. PORTUGUESE DELEGATION VISITING WASHINGTON NEXT WEEK WILL VERY LIKELY INQUIRE ABOUT POSSIBILITY OF INCREASING OR LIBERALIZING U.S. ESF LOAN IN ORDER TO HELP BRIDGE THE GAP UNTIL THE CONSORTIUM LOAN BECOMES AVAILABLE.  
CARLUCCI

NOTE BY OC/T: NOT PASSED TREASURY

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NNN

## Message Attributes

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